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May 13, 1991

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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$9 An Issue $135 A Year

AT DEADLINE

Confidential voting adopted

Hercules Inc. has become one of an unprecedented number of companies to adopt a policy of confidential voting this proxy season. The move came in response to a shareholder resolution sponsored by the Pennsylvania Public School Employes' and the California Public Employees' retirement systems.

Household does placement

Household Global Funding Inc. has privately placed $80 million in term-preferred stock under the SEC's Rule 144A.

The issue is backed by the parent company, Household International Inc., which has committed to own a majority of the voting capital stock of HGF, to maintain a minimum net worth of $50 million at HGF and to require HGF to maintain bank lines so the company can pay dividends on the preferred stock.

Funds shift assets

The $4.2 billion Los Angeles Fire & Police Retirement System hired The Boston Co. for a $450 million large-capitalization equity yield account. The money will come from existing large-cap equity managers, none of which was terminated. The fund also took $80 million from cash and allocated it to its high-yield bond managers, Cypress Capital Management and Magten Asset Management. The system's three international managers — Oechsle International Advisors, Nomura Capital Management and Hill Samuel/Investment Advisers — each will receive an additional $26 million; that money will come from its small-cap managers. . . . The $40 billion New York City Retirement Systems committed

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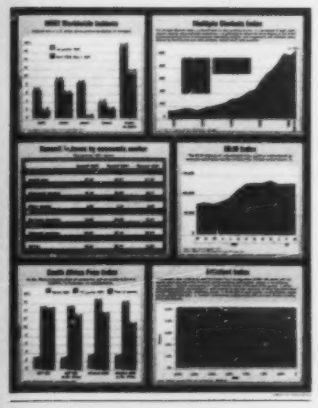
INSIDE



It's new and improved

The Efficient Index and the MLM Index make their debut as *Pensions & Investments* unveils its new Statistically Speaking page, revamped to give readers more information in an easier-to-read format. Page 36.

Pension plan running out of cash

LTV creditors may seek concessions

By Joel Chernoff

WASHINGTON — The funding of the dwindling Jones & Laughlin hourly pension plan is likely to become one of the next major sticking points in the lengthy bankruptcy proceedings of The LTV Corp.

Sometime this summer, the plan is expected to run out of money. That fact might be used as a bargaining chip by creditors in pressuring the United Steelworkers of America and the Pension Benefit Guaranty Corp. to grant concessions.

While Dallas-based LTV filed its proposed reorganization plan May 1, President and Chief Executive Officer David H. Hoag said the document is expected to be a structure for discussions, and "undoubtedly will be modified prior to approval."

That process may take months. In the meantime, the J&L hourly plan, one of three LTV Steel plans restored to the company by the PBGC after being terminated in January 1987, is quickly running out of cash. Possibly as soon as last Friday, LTV was expected to ask permission from U.S. Bankruptcy Court Judge Burton Lifland to resume funding the plan from LTV corporate assets. Then, if the plan runs out of cash, the PBGC would have to reterminate it and absorb the unfunded liabilities. Last July, LTV officials estimated the J&L shortfall at $1.6 billion, more than half of the company's $3.1 billion in pension liabilities.

That gives LTV creditors, many of whom have expressed unhappiness with LTV's proposed reorganization, additional leverage in trying to extract concessions from the PBGC and the Steelworkers.

LTV has appealed a district court ruling that restored the J&L plan to the company, but that litigation would be dropped if an agreement were reached.

The creditors also have a compelling argument with the Steelworkers. If the PBGC were forced to terminate the J&L plan, retirees would see their benefits slashed. That would place the union in the awkward position of representing some workers who would receive full benefits under another LTV Steel plan, while others would get diminished benefits under the terminated plan.

United Steelworkers officials were unavailable for comment.

Insiders do not expect the plan actually to be terminated, because

See **LTV** *on page 50*

Real estate values fall by $5.4 billion

Firms hit in fourth quarter of 1990

By Steve Hemmerick

Institutional real estate lost about $5.4 billion in appraised value in 1990, *Pensions & Investments* estimates.

Some consultants predict losses will continue this year.

The paper losses also have hurt real estate investment managers who base their fees on the appraised value of assets under management. Managers could, in aggregate, lose more than $50 million in fees this year, based on an average fee of 100 basis points or 1%.

P&I arrived at its $5.4 billion estimated loss by calculating data from the Russell-NCREIF Property Index, the most widely used index to measure performance of tax-exempt institutional real estate, and *P&I*'s statistics on assets of the largest real estate money managers.

The Russell-NCREIF index reported property values dropped 5.2% in 1990. And last fall, 105 of the largest real estate investment managers reported $104.3 billion in tax-exempt equity real estate investments. A 5.2% decline in value would result, in dollar terms, in the more than $5 billion loss in appraised property values.

Losses in property values were broadly based last year. Even some of the managers with stellar long-term returns — including TCW Realty Advisors, Los Angeles; Equitable Real Estate Investment Management Inc., New York; JMB Institutional Realty Corp. Chicago; and Heitman Advisory Corp., Chicago — reported losses in their commingled real estate funds.

According to a real estate industry source, who asked not to be identified, these firms' commingled funds, which generally are regarded as being the most popular among pension investors, suffered losses last year, particularly in the fourth quarter.

Executives at TCW and Equitable Real Estate confirmed the performance figures; Heitman declined to confirm the data and JMB officials couldn't be reached for comment.

For example, in 1990 TCW took a 9.3% writedown for Fund I, 7.9% for Fund II, 6.7% for Fund III, 6.5% for Fund IV and 5.4% for Fund V.

During the three-year period ended Dec. 31, Fund I returned 2.3%; Fund II, 4.4%; Fund III, 8.3%; and Fund IV, 6.8%. Fund V is too new for a three-year record.

Equitable's Prime Property Fund took a 3.7% writedown in the fourth quarter of 1990, its fifth consecutive quarterly writedown. Still, the fund returned a compound annualized 6.1% before fees were deducted for the three years ended Dec. 31.

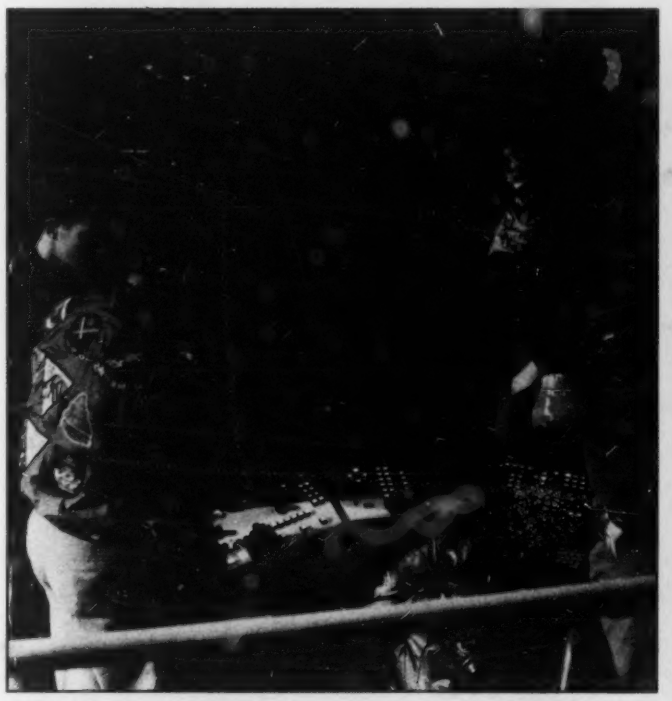
Heitman's Fund II took a writedown of 6.8% in the fourth quarter and Heitman Fund IV, 4.5%. Fund II returned 5.1%, after fees, for the three-year period; Fund IV is too new for a three-year record.

JMB's Group Trust IV took a fourth quarter writedown of 4.2%, or a $28.7 million paper loss. For the three years ended Dec. 31, the fund returned about 8.8%.

Equitable and JMB executives have blamed the writedowns on a generally soft real estate market, lack of liquidity in the economy, higher real estate yields and lower real estate prices.

Equitable executives said Prime Property Fund's losses primarily were in office properties, which they said fell 12.1% in value in

See **Values** *on page 50*



Cubic Corp., which manufactures this combat training system, has invested $25 million in a dividend capture strategy.

Dividend capture makes a comeback

By Marlene Givant Star

Dividend capture and related strategies are regaining popularity among corporations and pension funds.

The short-term investment strategy lost favor in the late 1980s as returns suffered, causing a painful consolidation in the industry. In its heyday, about $3 billion was in dividend capture; now, there is less than $1 billion, estimated Robert Gordon, president of Twenty-First Securities Corp., New York, which manages $1.5 billion in 27 corporate short-term investment strategies, about 20% of it in dividend capture.

In addition to hiring specialist managers, many corporations buy adjustable-rate preferred stock to capture dividends, safeguard principal and take advantage of the intercorporate dividend exclusion.

Companies that typically benefit most from dividend capture are those with investible cash that pay the maximum tax rate of 34%.

American companies must hold a stock for 46 days to qualify for

See **Strategies** *on page 48*

NEWS DIGEST

Texas Sen. Lloyd Bentsen is the Democratic sponsor of a bill aimed at expanding individual retirement accounts. But financing the estimated $28.5 billion cost of the proposal will be the key to passage. Page 26.

Gov. Mario Cuomo proposes a plan to allow New York's public pension funds to invest up to 25% of assets for economic development. Page 6.

Equity managers pump cash into the stock market just in time to catch the big first-quarter jump. Page 33.

SPECIAL REPORT: MUTUAL FUNDS

After a decade of tremendous growth, the mutual fund industry is finding more and more players ready to split up its market share. Page 16.

FINANCING

Fruehauf Trailer Corp. makes a rare appearance for a corporate pension fund on a creditors committee involved in the reorganization of a bankrupt realty and financial services firm. Page 3.

INTERNATIONAL

American depository receipts are drawing increased interest from a small but loyal cadre of institutional investors. Page 4.

REAL ESTATE

Institutional real estate lost about $5.4 billion in appraised value in 1990, and some consultants predict losses will continue this year. Page 1.

NCNB National Bank officials want to convert a $539 million common trust to a limited partnership fund, hoping to avoid a forced, protracted sale of assets. Page 2.

The Waterbury (Conn.) Retirement System files suit to recoup more than $500,000 the system lent to a real estate limited partnership. Page 32.

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Vol. 19, No. 10 — Pensions & Investments (ISSN 1050-4974) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

International questionnaires overdue

The deadline for returning questionnaires for *Pensions & Investments'* annual survey of the largest international managers was May 12. The special report will be published June 24. If you did not receive a questionnaire this year and believe you would qualify for inclusion in the report, contact Christine Philip, directory coordinator, at (312) 649-5217.

NCNB acts on realty fund

Proposed partnership would ease withdrawal problem

By Steve Hemmerick

CHARLOTTE, N.C. — NCNB National Bank officials want to convert the $539 million common trust NCNB Real Estate Fund to a limited partnership fund, hoping to avoid a forced, protracted sale of assets.

Such a move would allow limited partners to pursue a secondary market for ownership interests in the fund, and would let NCNB continue to manage the investments.

At the end of January 1991, following discussions with its larger investors, trustees voted to liquidate the fund. But the trustees hope the conversion to a limited partnership will provide the cash needed while selling little of the fund's actual assets.

Although many investors, such as the $826 million Duke Power Co. pension fund, Charlotte, N.C., have expressed confidence in NCNB's management leadership, others want to cash out because they are reducing their real estate commitment in general or because they are terminating their tax-exempt plans, according to Floyd T. Boyce, director of NCNB Real Estate Investment Services.

In 1990 alone, NCNB received withdrawal requests of $13 million June 30, $22 million Sept. 30 and $8 million Dec. 31.

Trustees "froze" the fund in September, thereby suspending further withdrawals pending an investor poll. In late November, that poll had revealed investors wanted to withdraw a total of $124 million — or about 23% of the fund, partly a result of the bad publicity concerning real estate, said Mr. Boyce. At that time, however, the fund had only $35 million in cash to meet withdrawal requests.

Ordinarily, the fund has only one year to meet withdrawal requests. Cash also was needed for further development of properties, and there was little money coming into the fund, said Mr. Boyce.

Under a limited partnership structure, investors who want to cash out can sell their interests to other fund participants or new investors, tax-exempt or taxable, without having NCNB sell assets on the open market.

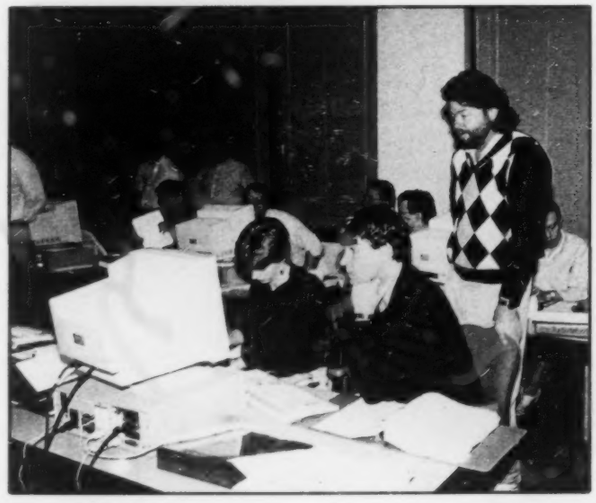
The NCNB plan also calls for investors to approve of transferring at least two-thirds of the assets into the new partnership, said Mr. Boyce. Although NCNB would continue as manager, the partnership would have a new general partner, as yet not chosen.

Before NCNB trustees can begin the process, they must get the approval of an independent fiduciary, which also has not yet been chosen.

Also, they must hope there are enough buyers and sellers on both sides of the planned transaction

See **NCNB** *on page 49*

Plan administration is on-line



Benefit administrators use systems like WyPen to cut costs and increase responsiveness.

By Fred Williams

Computer technology is promising to revolutionize the administration of employee benefit plans.

Executives at Primerica Corp., the State Universities Retirement System of Illinois, Halliburton Co., Bell Atlantic Corp., General Electric Corp., Xerox Corp., Ford Motor Co. and General Motors Corp. are among the first to embrace some of the changes.

Advances in image processing and the development of sophisticated pension administration software and interactive data techniques — coupled with a lower price tag for the technology — promise to make the staid pension administration function the focal point of retirement planning. In addition, these developments could affect plan design changes suited to a more sophisticated and mobile work force.

But primarily, advances in technology will make benefits ad-

See **Technology** *on page 45*

401(k)s star in expansion effort

By Hillary Durgin

WASHINGTON — Tax-exempt institutions and state and local governments could establish 401(k) defined contribution plans for their 12 million employees under the Labor Department's new plan to expand pension coverage.

But the small businesses employing 26 million workers who have no pension are likely to find the cornerstone of Labor Secretary Lynn Martin's proposal too costly for them to offer to employees, pension consultants said.

The provision of the administration's proposal likely to affect large employers is one that would make it easier for workers who switch jobs to transfer retirement savings into individual retirement accounts or to the new employer's plan, providing the company is willing to accept the transfer. But this provision is not expected to have much of an impact on employee savings.

The five-pronged program, Pension Opportunities for Workers' Expanded Retirement, is intended to expand pension coverage to 42 million workers who lack retirement coverage because of the complexity and cost of pension plan administration.

The provision of the Labor Department's proposal allowing tax-exempt institutions and state and local governments to have 401(k) plans would benefit 12 million workers, 3.1 million of whom have no pension, according to Labor Department estimates.

"The key impact of this proposal is that the not-for-profit sector is going to be absolutely delighted to establish 401(k) plans," said Henry Saveth, princi-

See **Coverage** *on page 46*

Labor Secretary Lynn Martin is trying to expand pension coverage.

Where they stand on the pay scale

Firm	Top financial officer	Amount
Walt Disney	Gary L. Wilson	$2,134,280
	(Salary, $134,280; bonus, $2,000,000)	
ITT	M. Cabell Woodward Jr.	$1,201,869
General Mills	F.C. Blodgett	$1,069,402
USX	W.B. Thomas	$1,032,000 **
BankAmerica	Frank N. Newman	$975,000
Southwestern Bell	R.G. Pope	$946,400
	(Salary, $520,600; bonus, $425,800)	
Anheuser-Busch	Jerry E. Ritter	$903,062
	(Salary, $451,062; bonus, $452,000)	
Lockheed	V.N. Marafino	$899,635
Textron	Dennis G. Little	$858,717
Litton Industries	Joseph T. Casey	$852,670
Sara Lee	Michael E. Murphy	$798,460
Honeywell	Christopher J. Steffen	$794,445
Reynolds Metals	R. Bern Crowl	$775,000
	(Salary, $375,000; bonus, $400,000)	
CIGNA	James G. Stewart	$766,000
AMR	Donald J. Carty	$666,667
	(Salary, $366,667; bonus, $300,000)	

Listing continued on page 42

Apple CFO tops list in '90 salary derby

By Marlene Givant Star

Joseph A. Graziano, Apple Computer Inc.'s chief financial officer, earned $2.793 million in 1990, making him the highest paid financial executive among the more than 1,000 public companies sampled by *Pensions & Investments*.

His total 1990 compensation even bested that of the company's chief executive, John Sculley, who earned $2.199 million, although Mr. Sculley's long-term compensation amounted to a mammoth $14.531 million in 1990.

Mr. Graziano's compensation included $600,000 in bonuses and $1.5 million paid under an employment agreement. Close behind was Gary L. Wilson, chief financial officer of Walt Disney Co., with $2.13 million. Mr. Wilson's 1990 compensation included a salary of $134,280, which reflected payment for the portion of fiscal 1990 — Oct. 1 to Dec. 31, 1989 — when he was chief financial officer. A $2 million bonus was paid during fiscal 1990 for services rendered in fiscal '89. Judson Green is Disney's new CFO; he replaced Mr. Wilson, who remains a Disney board member and consultant.

Other runners-up included James Morrison of Atlantic Richfield Co., with $1.238 million; M. Cabell Woodward Jr. of ITT Corp., with $1.202 million; and George G. Vojta of Bankers Trust Co., with $1.2 million.

The few CFOs breaking the $1 million mark span an array of industries. They include F.C. Blodgett of General Mills Inc., with $1.069 million, and Morris Tanenbaum of American Telephone & Telegraph Co., Douglas H. McCorkindale of Gannett Co. Inc. and W. Bruce Thomas of USX Corp., each with $1.03 million.

All of these companies, with the exception of Bankers Trust and AT&T, had top-paid CFOs included in last year's survey. Disney's Mr. Wilson was last year's top earner, at $2.5 million, which included $500,000 in deferred cash compensation.

Mr. Morrison, the new CFO of Atlantic Richfield, replaces Ronald Arnault, now an executive vice president of ARCO. Mr. Arnault earned $1.194 million in 1990, compared with $954,400 in 1989.

Mr. Blodgett's compensation stayed the same during the pe-

See **Salaries** *on page 42*

Double-teaming an old foe

Management, labor work to slay health cost dragons

By Hillary Durgin

Corporate management and labor leaders are forging new alliances to tame Pac-Man-like health care costs, shifting the focus away from the bargaining table.

These new alliances — involving major corporate leaders such as American Airlines, USX, AT&T, BellSouth and General Motors — represent trends that may be mimicked throughout American industry.

Labor and management are working together to implement a wide array of initiatives to bridle costs that are eating up corporate profits by as much as 30% annually and comprising up to 15% on average of workers' total employment costs.

The initiatives range from variations on the joint labor/management committees on health care born in the 1980s to regional experimental cost containment strategies and purchasing alliances.

In some instances, companies and their unions and intraindustry groups are teaming up to flex their political muscle in search of long-term, national health care reform.

These efforts represent a joint realization by corporations and labor unions that issues of cost, quality and access to health care cannot be resolved at the bargaining table. Such issues last year accounted for 80% of all strikes.

"The single issue in the labor management arena in this country which creates the greatest likelihood for disagreement is health care," said Ralph Craviso, vice president-employee relations at American Airlines Inc., Fort Worth, Texas.

Some unions, such as the Transport Workers Union of America and the Communications Workers of America have compromised in negotiations. Others such as the Airline Pilots Association, the United Steelworkers of America and the United Auto Workers have differences of opinion and in some cases have taken a hard line against benefit modifications. Still, a new flexibility is permeating discussions in corporate corridors, negotiating chambers and the halls of Congress.

"The lesson in the mature (joint labor management) committees . . . is that now both sides . . . have come around to the notion that the appropriate venue for bringing health care inflation under control is somewhere other than the bargaining table," said Karen Ignagni, director of the department of employee benefits at the AFL-CIO, Washington.

The AFL-CIO announced a broad resolution for national health care reform in February.

"It's a very telling development that lots of other companies in the auto industry, the steel industry and the communications industry are deciding to work together to seek some sort of joint strategic plan for legislative relief," she said.

Companies and unions have diverse strategies for dealing with health care cost issues. Here's a sampling:

American Airlines

In 1989, American Airlines struck a compromise in its negotiations with its largest union, the Transport Workers, to overhaul the company's health care program for active and retired workers.

"Whereas in the past, the unions had been advocates of an increase in the level of health care benefits, the Transport Workers Union has been partners with us," Mr. Craviso said.

American put in a flexible benefits program for active workers and a pre-funded retiree health program.

The new flexible benefits program shifts a portion of the increased health care costs to the employee. Between 1989 and 1990, American's health care costs rose 14.5% to $2,556 per active worker from $2,233 and 6.6% to $2,337 per retiree from $2,193.

Under the plan, which went into effect in January 1990, an employee has a choice of indemnity plans with different levels of deductibles and out-of-pocket expenses. In the first year, the employees paid no more than they paid the previous year for the same level of benefits. In subsequent years, however, if employees want to continue the same level of coverage, they share the cost of health care cost increases with American based on a formula.

The result has been that management and labor are working together to control costs, and the employees are more involved.

"Having agreed to a formula wherein their members will share in part of the increase in health care costs, it became incumbent on the unions to find ways to reduce health care cost increases," Mr. Craviso said.

While American and the Transport Workers struck a compromise on negotiations, talks with the pilots' union have been less successful. To resolve the negotiations over health care and other issues, the parties agreed to an

See **Health** *on page 50*

American Airlines and the Transport Workers Union are working together to curb rising health care costs.

Pension fund on creditor panel

By Marlene Givant Star

LITTLE ROCK, Ark. — Fruehauf Trailer Corp., in a rare appearance for a corporate pension fund, is among the official members of a creditors committee involved in the reorganization of Fairfield Communities Inc.

Fairfield, one of the 10 largest companies to file for bankruptcy in 1990, has filed a plan of reorganization calling for the formation of a new sales company with less than 10% of the assets of the former real estate development and financial services company.

Detroit-based Fruehauf is on the committee of exchange noteholders, along with such investors as Washington Square Capital, Minneapolis; CNA Insurance Co., Chicago; and Kemper Financial Services, Chicago.

All of Fruehauf's workout investments are managed in-house, whereas most pension funds investing in distressed companies do so through specialized limited partnership funds or outside managers.

Fairfield's reorganization plan, filed May 8, is a work-in-process, meaning it will be used as a basis for further discussions — or court battles — among the company's stockholders and creditor groups. Those groups include trade creditors, senior subordinated secured noteholders (also known as exchange noteholders), unsecured bondholders and secured lenders led by Bank of Boston.

The company filed for protection under Chapter 11 of the Bankruptcy Code in October. It has 23 resort and home developments on approximately 70,000 acres in 10 Sun Belt states. It also sells timeshare interests in fully furnished homes. It owns First Federal Savings and Loan Association of Charlotte, N.C., which mainly originates single-family residential loans in the Charlotte area, according to The Bankruptcy DataSource, a publication of New Generation Investments Inc., Boston.

First Federal and certain real estate subsidiaries were not part of the bankruptcy filing.

Fairfield's plan calls for it to split into two companies: Property Co., which will — over time — liquidate more than 90% of the assets of Fairfield for the benefit of creditors, and Sales Co., which is expected to have sales volume of less than half that of

See **Workout** *on page 49*

Real estate investment criteria by property type – 1st quarter 1991*

Property type	Industrial	Retail: Regional centers	Retail: Community/ neighborhood/ power centers	Office: CBD	Office: Suburban	Apartment
Range**	11-13	11-13	11-12.5	11.5-13	11-13	10.5-13
Going-in cap rate (%)	9.1	7.4	9.0	8.6	9.4	8.6

*This survey was conducted in March 1991 and reflects desired returns for first quarter 1991 investments.
**Ranges and other data reflect the central tendencies of respondents; high and low responses have generally been eliminated.

REAL ESTATE

Investors' higher yield expectations aren't being met

■ Institutional real estate's buyers and sellers are out of sync, Real Estate Research Corp.'s first-quarter investment survey shows.

Investors say they have cash to invest, although their targeted yields continue to rise in light of a reassessment of the risk inherent in realty investing. But a lack of deals "spotlights the disparity between buyer and seller investment strategies," Chicago-based RERC says.

Respondents had allocated between $11 billion and $12 billion for investment in 1991. Almost 75% of the respondents, however, said last year's allocations were below targeted amounts.

Among property types, 45% of the survey respondents expressed a preference for retail, up from 33% in the fourth quarter of 1990. Some investors still were seeking regional malls, but many said they see opportunities in smaller centers with good economics and in centers that could be rehabilitated or expanded.

Industrial properties were preferred by 32% of the respondents, followed by apartments with 23%. None of the respondents picked offices as the property type of first choice; investors are waiting for the current oversupply to be absorbed.

As in 1990, investors generally were pessimistic in their outlook.

Income streams were expected to stay flat for the next two to three years, with a slight improvement after that. Meanwhile, expenses were expected to increase 4% to 5% annually and the five-year projection for inflation was about 5% annually.

INVESTING

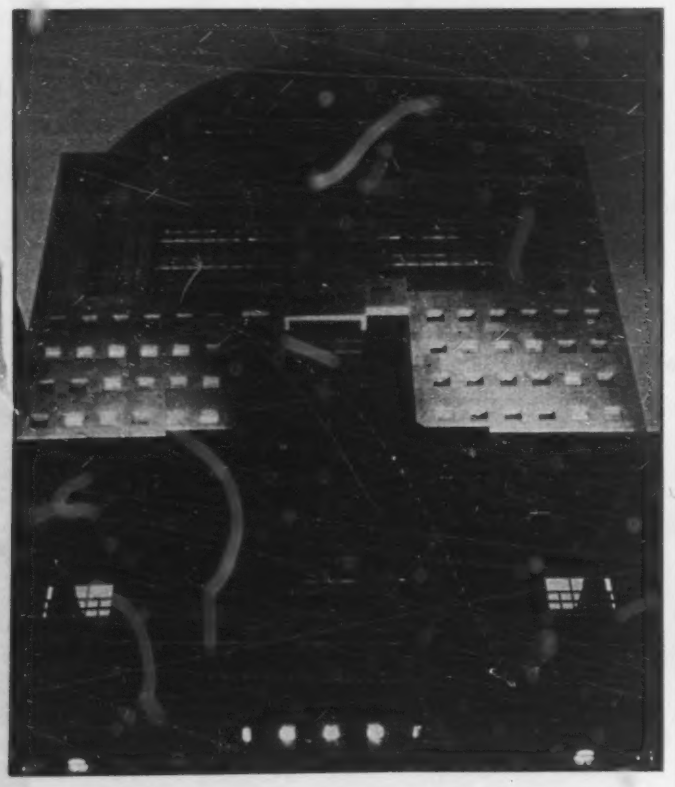
This analysis nothing to sneeze at

■ If you're pleased you escaped the flu this winter, consider the impact that might have had on your investments.

According to Sanford C. Bernstein & Co. Inc., New York, a weak flu season resulted in a reversal of the trend toward hospital management companies showing modestly improving acute care occupancies.

In its update on the health care industry, Bernstein noted hospital admissions fell 2% during the first quarter at such companies as Humana Inc. Humana's quarterly earnings per share should rise 11%, compared with 20% to 25% for Medical Care International, whose out-patient surgery centers are gaining market share.

Among health care suppliers, Johnson & Johnson is Bernstein's favorite major market capitalization stock because of its improving pharmaceutical mix, although it is expected to suffer a slightly weak first quarter.



Humana Inc.'s quarterly earnings will reflect a weak flu season, according to Sanford C. Bernstein.

WASHINGTON

Third time may be a charm for PBGC officials

■ The Pension Benefit Guaranty Corp. is eating its words.

For the third time in eight years, the federal agency has reversed course as to whether employers quitting a multiemployer pension plan can be liable for withdrawal liability, even if the plan is fully funded.

Now, in a March 22 notice in the Federal Register, the PBGC says that employers can be on the hook.

"If it weren't such an important issue for multiemployer plans, the PBGC's flipflopping would be humorous," said Kyle Brown, a Wyatt Co. benefits attorney in the firm's Washington office.

In 1983, the agency said a withdrawing employer can incur withdrawal liability, even when the plan has no unfunded vested benefits at the end of its preceding plan year. That's because the 1974 Employee Retirement Income Security Act requires that an employer's withdrawal liability be calculated by adding up a series of charges and credits, which can exceed zero even when the plan as a whole is fully funded.

In February 1986, a federal appeals court backed up the PBGC. On Dec. 31, 1986, the PBGC announced it had "erred" in stating that withdrawal liability could be assessed in such situations, saying that the pension law was "ambiguous" on the issue.

Another federal appeals court later agreed with this new position.

But last year, a third appeals court rejected the agency's stance, finding no ambiguity in the statute. This February, the U.S. Supreme Court refused to review the case, known as Wise v. Ruffin.

So after a yet another review, issue, the PBGC is convinced it erred again.

INTERNATIONAL

Managers come close, but no cigar

■ The performance of active international and global equity portfolios improved during the first quarter of 1991.

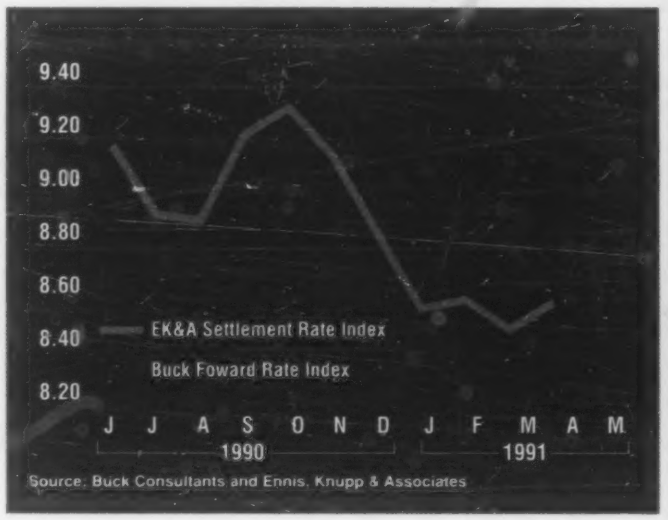
According to The World Markets Co., median returns for WM's universes were slightly below market indexes in the first quarter, but less than half of the indexes' performance for the year ended March 31.

The median non-U.S. equity portfolio in WM's universe returned 7.3%, while the Morgan Stanley Capital International Europe Australia Far East Index returned 7.6%. The median global portfolio returned 9.7%, compared with 10% for the MSCI World Index.

For the 12 months ended March 31, the median non-U.S. portfolio returned 1.2%, while the EAFE had 3.2%. The median global return was 3.3%, compared with 7.2% for the World Index.

For the five years ended March 31, the median non-U.S. annualized return was 14.2%, matching the EAFE, while the median global portfolio returned an annualized 15.5%, beating the 13% posted by the World Index.

The WM universe's first-quarter results include 101 non-U.S. portfolios and 18 global portfolios.



PEOPLE

Jacobs offers special opportunity

■ Irwin Jacobs is raising money again — for a very special investment. While it's a long-term investment, the payoff begins immediately.

The target for Mr. Jacobs' fundraising efforts is $22 million, of which between $16 million and $17 million already has been committed, so the chance to participate is slipping away.

I. Jacobs

The Minneapolis-based investor, chairman of Minstar Inc., Jacobs Investors Corp. and Jacobs Management Corp., is raising the money to finance the Special Olympics, which will be held in Minneapolis and St. Paul beginning July 20.

To win the Special Olympics for the Twin Cities, Mr. Jacobs had to agree to underwrite them for $8 million, and to become chairman of the organizing committee.

The Special Olympics is the summit of athletic endeavor for handicapped athletes. Mr. Jacobs became involved through the participation of his daughter, Sheila, in the Special Olympics held four years ago.

"I cried from the time she got on to the track to the time she finished," Mr. Jacobs said. "That night my wife and I stayed up and talked all night about the experience. I knew I had to get involved."

Mr. Jacobs did not realize the scope of the task he was undertaking. This year 6,200 athletes from 92 countries — including, for the first time, the Soviet Union — will compete. They will travel on 1,000 aircraft and be assisted by 40,000 volunteers.

Those wishing to join such companies as Coca-Cola, Eastman Kodak and IBM in this great investment opportunity can contact Mr. Jacobs.

The 1991 Special Olympics will draw 6,200 athletes from 92 countries.

The scramble's on for mutual fund business

By Curtis Vosti

The mutual fund industry faces a period of intense competition in the 1990s following a decade of of extraordinary growth.

Between 1980 and 1991, the number of mutual funds grew to more than 1,000 from about 250. In assets under management, the funds now control more than $1 trillion, up from just $100 billion at the beginning of 1980.

But the 20% annual growth in the 1980s has resulted in increased competition in the 1990s, just when the rate of asset growth is expected to slow to 10% to 15% per annum.

The competition is coming from banks, investment management firms that have not emphasized mutual funds in the past, brokerage firms offering "wrap fee" programs, and large corporations offering in-house mutual fund manager of managers-style investment management to their employees, pension beneficiaries and even to outside clients.

How well armed the mutual fund industry is to defend its turf remains to be seen. Thoughtful people in the industry, however, are not taking the challenge lightly.

"The mutual fund industry is going to be open game for any financial service company in the 1990s," said John Bogle, chairman of the board of the Vanguard Group of Cos., Valley Forge, Pa.

"The easy wins are behind us for our industry," said Charles Salisbury, managing director of T. Rowe Price, Baltimore. "Now we'll start to see who the real winners are going to be."

The challengers also face some daunting hurdles.

"The business isn't just investment management anymore," said Bob Reynolds, president of Fidelity Institutional Services Inc., Boston. "It is providing record-keeping and other services."

"The shape of and access to the distribution system are the make-or-break issues for the '90s," said a report by the Investment Company Institute, a Washington-based mutual fund trade group.

Distribution patterns will shift a great deal in the coming decade, said A. Michael Lipper, president of Lipper Analytic Services Inc., New York. Banks, insurance companies and brokerage firms all will compete with traditional mutual fund companies, he said.

The sincerest form of flattery

"The boundary lines will be blurred," he said. "In the future, banks and insurance companies will improve their own products."

In effect, the success of mutual funds in the '80s has caused competitors to emulate them.

In addition, in the coming decade, traditional mutual fund companies like Fidelity, Vanguard and T. Rowe Price will be challenged not only by a host of new players, but also by pressures on costs, supply and marketing.

Mutual funds, which have faced and conquered adversity in the past, will not surrender easily before the challenges.

In the 1960s, mutual funds enjoyed a brief surge in popularity with the "Nifty 50" stock funds. But the go-go years proved short-lived, and investors soon found the value of their holdings cut in half as the markets plunged in the 1970s.

In the early 1970s, redemptions of mutual fund shares outpaced sales, and the industry's future looked dim.

A rebound occurred, thanks to the development of money market funds, which combined the pooled fund attractions of the funds with the high interest rates of the period.

In effect, the industry used innovation to make itself competitive and extend the life of its product. In the process, it put itself into competition with banks and took part of the banks' traditional source of funds — passbook savers.

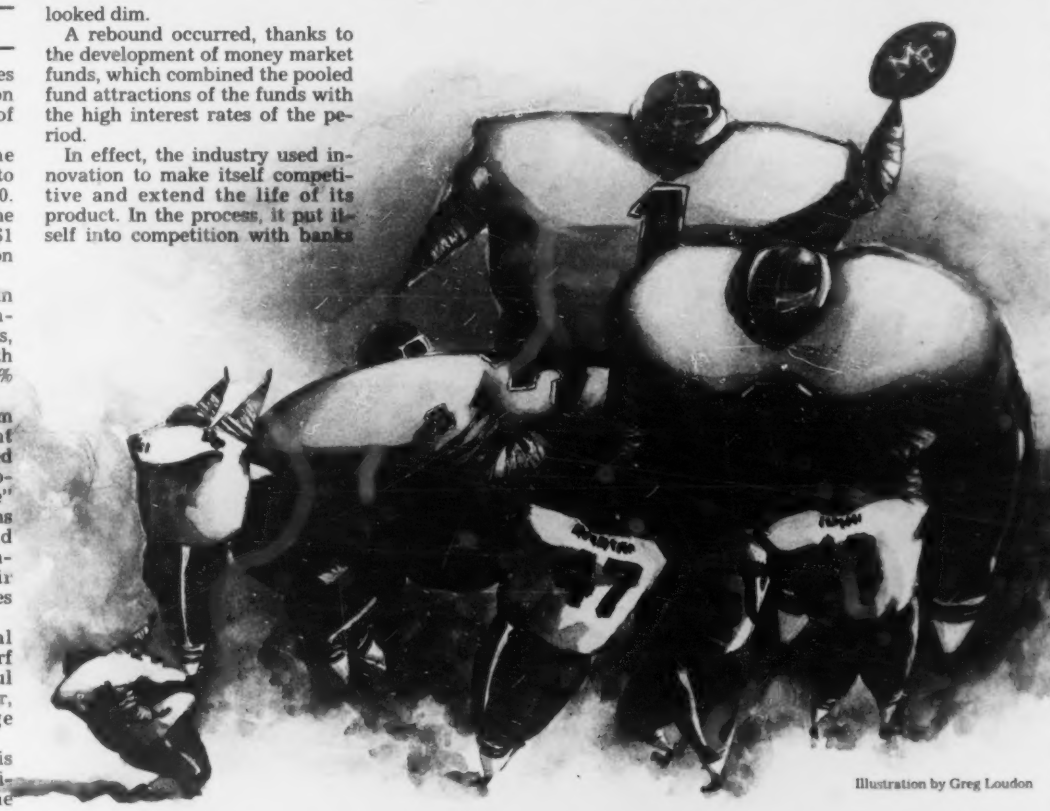


Illustration by Greg Loudon

"It was hard to go to a party without people talking about how their mutual fund money markets were doing," recalled Robert Rudell, vice president for institutional marketing for IDS Financial Services Inc., Minneapolis. "It was hot stuff, and brought in a lot of customers."

But the drop in rates in the early 1980s caused the industry to reassess itself. It broadened its horizons with the introduction of bond funds and high-yield vehicles, but again, after a spell, those found themselves out of favor.

The real growth of the 1980s was sparked by the short-lived tax advantages for individual retirement accounts and the spurt of assets going into 401(k) salary reduction plans after 1982.

Now, as the industry moves into the 1990s, the ability to recreate itself through innovative product offerings will take a back seat to other abilities — those of participant education, administration and distribution.

And although the market will be growing more slowly than in the heady 1980s, it still will be a market worth fighting for.

Household discretionary income is projected to rise to $16.2 trillion in 2000, up from $10.3 trillion in 1995 and $6.7 trillion in 1990. Mutual funds are expected to get 17.6% of that discretionary income in 2000, up from 15.5% in 1995 and 14.5% in 1990.

Competitive advantages

The major mutual fund companies find themselves in a good position to fight the challengers. The strengths that allowed Fidelity, Vanguard and T. Rowe Price to dominate during the growth decade — their "brand name" products readily identifiable to all potential customers, their marketing skills and their customer-pleasing administrative services — will stand them in good stead in the slower growth of the 1990s.

But the new competitors have learned what made the Big Three successful; now they're attempting to emulate them. And each type of competitor has some advantages of its own.

President Bush's banking reform proposal has urged liberalization of the banking industry's role in marketing, distributing and managing mutual funds.

Banks have large customer bases, and those customers are in contact with the banks almost on a daily basis. The major banks also have well-developed marketing departments and powerful computer networks that could allow them to provide the necessary administrative services.

"Everybody's looking for the [illegible] system to play a larger [illegible]," said Frank Sebestyen, senior vice president for State Street Bank & Trust Co., Boston.

Brokerage firms offering "wrap fee" accounts also pose a threat. That type of account appears to offer the sophisticated customer more personal attention than he or she can get from mutual funds.

For the wrap fee, the customer gets the advice and hand holding of a broker-consultant and the management expertise of one or more top investment management firms. And the brokerage firms have large customer bases, large numbers of registered representatives telephoning and knocking on doors to sell the product, and large computer systems on which to mount improved administrative packages.

"The challenge for the fund industry is to make sure the mutual funds are inside most of the wrappers," the ICI report said, referring to the opportunity for the industry to provide its services to brokerages.

In addition, large corporations are offering their own "private label" mutual fund products to their employees and others.

Concerned about their employees' retirement savings, several large plan sponsors — including

See **Mutual funds** *on page 22*

This announcement appears as a matter of record only.

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$160,000,000
in equity commitments

A Private Limited Partnership organized to invest in existing multi-family properties on behalf of pension funds.

Bear Stearns Realty Partners Corporation

Capital Associates Realty Partners Corporation

May 1991

Mutual funds

Continued from page 16

Bell Atlantic Corp., IBM Corp., Owens-Illinois Inc., Bechtel Power Corp. State Farm Insurance Cos., General Electric Co., Caterpillar Inc. and American Airlines Inc. — have created their own mutual funds.

Putting their expertise to use

"The finest institutional investors in the country are the larger pension funds," said Ron Boller, president of Harbor Capital Advisors, an investment firm spun out of Owens-Illinois in 1983.

"It only makes sense for a few plan sponsors that have the resources," Mr. Boller said. "The quality of our investment expertise is not readily available to other people."

Companies usually create a mutual fund program because they think employees need help with investment planning, but there are other reasons as well.

Illustration by Greg Loudon

"Some very large companies have decided to go with mutual fund vehicles because they are a lot more flexible, easier to transfer assets and are available for outside investors," said State Street's Mr. Sebestyen.

The mutual funds also can provide a source of income and cheap financing to companies.

Bechtel set up its mutual funds in response to employees who wanted to invest in a way familiar to them, according to Lou Indindoli, vice president of Fremont Investment Advisors Inc., the investment advisory group set up by Bechtel. The concept works for Bechtel because the employees-turned-investors are comfortable having assets invested in mutual funds, with objectives familiar to them, and handled by an in-house staff familiar to them.

The business also counts on retiring employees rolling over their retirement benefits into IRAs invested in mutual funds. It's an important source of future mutual fund asset growth and income for the firm, Mr. Indindoli said.

Owens-Illinois' Harbor began with one mutual fund and now has six, all run by different managers, including itself. "We have better control of our product this way," Mr. Boller said.

It's a trend he expects will spread among other large pension funds as they look at the cost and performance factors of traditional mutual fund companies.

"We've been approached by other large companies about doing that. I was surprised at how many calls there were," Mr. Boller said. "There is a reason we do these things: It's called quality control. It makes the people feel comfortable that they know what's going on."

The one area where little new competition is expected is the mutual fund industry itself. Few start-up niche funds are in the cards.

Barriers to entry

The ICI report noted that with all the product innovation of the 1980s, it will be hard for new niche players to emerge. But William G. Waller, senior vice president of the Strong Funds, Milwaukee, part of Strong/Corneliuson Capital Management Inc., said the industry needs the new blood.

"If there ever was an industry crying out for new people, it is the mutual fund industry," he said. "However, it's tough to build a name."

Jon Fossell, chairman of Oppenheimer Management Corp., New York, said economies of scale provide a big barrier to new entrants. "Unless you have a couple of billion (dollars) under management, you don't break even."

But Mr. Lipper cautions against ruling out the entrepreneurial spirit that nurtured the mutual fund industry through the growing years.

"It's a very creative industry," he said. "Don't think of niche in terms of portfolios. The mutual fund industry is fundamentally a marketing business. Out of that will come some talent that will make it."

There are several ways the mutual industry can counter the competition it will receive from banks, brokers and corporations.

First, it can (and already does to some extent) sell wholesale its products to banks and even brokerage houses for them to retail.

Fidelity's Mr. Reynolds said mutual fund companies like Fidelity can work with banks, providing help in a number of service areas that have stymied some of the early banking efforts in the field.

While some major banks probably will start their own mutual funds or buy existing ones once the Glass-Steagall Act is abolished, many smaller banks undoubtedly will find retailing existing funds attractive compared with the costs of starting or buying their own families.

Second, mutual funds can build on what seems to be a technological advantage on the administrative side to stay ahead of the competition.

According to Michael Hines, vice president of marketing development for Fidelity, in the '90s the emphasis will switch to service from products.

"The product was the story of the 1980s," he said. "Much of what you are going to see out there (in terms of product) five years from now is already out there."

As the emphasis switches to service, Mr. Hines said, the mutual funds have "hidden technologies" that help to organize what can become a complicated system of investment, record keeping, education and information.

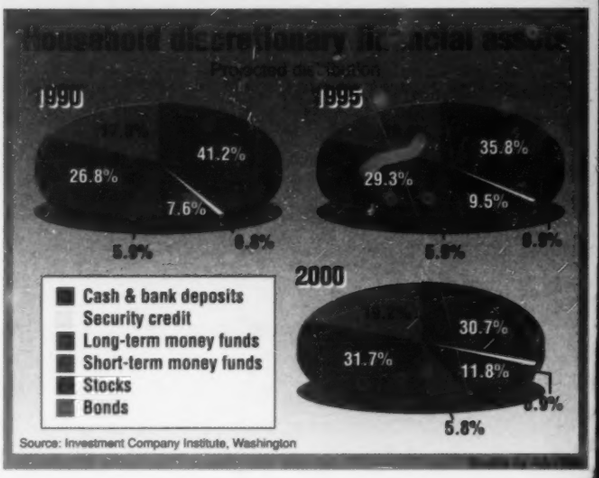
"It can become fairly complicated very easily," he said.

Opportunities are still there

And traditionally, a technology and market share leader reduces prices to protect a franchise. The mutual fund industry could make it expensive for the competition by doing so.

While the market is growing more slowly, and competition is intensifying, there still are great opportunities for the top mutual fund organizations.

The Investment Company Institute said individuals investing through corporate retirement plans — the "insti-vidual market" — are the most promising source of new assets for the mutual fund industry.



Source: Investment Company Institute, Washington

Through the popular participant-directed retirement vehicles, mutual funds will be able to get their foot in the door for personal savings and retirement rollovers.

"Mutual funds have become an important lynchpin of personal financial planning: capital accumulation, retirement planning, medical care, saving for tuition, etc.," IDS' Mr. Rudell said.

"Increasingly, funds will not be sold on their features nor intended customer but rather on the goals they help to fulfill," the ICI's report concluded.

Changing demographics also are expected to play a role in the continued popularity of mutual fund investing and the changing nature of the business.

Two wage-earner families are becoming the norm, and Fidelity's Mr. Hines said although there was a decline in the savings rate among individuals between 1980 and 1991, the pool of new savings investment continues to be large.

"Even with a recession on, there are so many dual wage-earning families, there are tremendous amounts of savings," he said.

While not everyone agrees savings rates will climb in the coming decade, Mr. Hines said, either way it doesn't matter.

In January 1980, he said, with a personal savings rate of 6.48%, new savings grew by $119 billion; in January 1991, with a savings rate of just 4.68%, new savings still grew by $187.4 billion. In January 1989, new savings stood at $157 billion.

"There is a tendency toward higher savings," he said. "U.S. investors are trying to get their financial houses in order."

Mutual funds are likely to benefit from changing savings patterns and from preliminary signs of an increase in the money supply, Mr. Lipper said.

"There will be a societal shift to savings and investments," he said. "If inflation does not rear its ugly head, (an increasing money supply) could last long enough to have a real shot in the arm to investment flows."

Equity funds could benefit

He said that Congress and the president can and are playing a positive role. "The administration and Sen. (Lloyd) Bentsen are pushing IRA-like savings programs," he said, which could provide an outlet for nervous investors. "The whole investment attitude got shook up before this last recession.

"It used to be that the home was the biggest investment (for an individual), and it always used to go up in value. Now, home values don't always go up. It's no longer a safe bet to sell your home for a sufficient enough profit."

This change could lead to greater use of equity mutual funds, he said.

"A bold assumption might be that fixed-income (funds) will drop to 65% from 75%," Mr. Lipper said. "If you add 10% to equity, that's a 40% increase for the decade."

Indeed, the Investment Company Institute believes many forces are at work to bring equity funds back to center stage.

Corporate efforts to "re-equify" after years of debt, customers' realization that they need the higher long-term returns of equities to finance retirement and other expenses and the margin squeeze on managers all will help focus on equity products.

"The successful product will combine equity-like returns with comfort for the risk averse," the ICI report said. "Equity managers with proven (track) records will be at a premium."

Quantitative techniques and indexing also will play increasing roles, as the pressures of cost containment adds to the shortage of equity managers, the ICI report said.

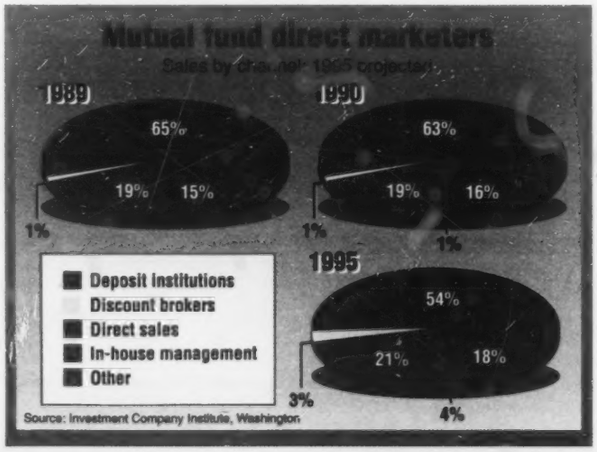
"The pressure to allow these techniques into the individual marketplace through mutual funds is bound to increase, especially if the markets remain volatile," the report said.

Meanwhile, Mary Barneby, president of the benefits division of Dreyfus Group Retirement Plans, New York, said there still will be room for the funds that show stellar returns.

"Good performance is always noticed," she said. "There's still room for good managers."

And good performance will attract investment dollars to the mutual fund industry in the 1990s.

So weep not for the mutual fund industry in the slow-growth '90s. It is well-positioned to meet the emerging competition head-on and to defend its turf. ■



Source: Investment Company Institute, Washington

Money movers is a section that details the appointments of money management firms for tax-exempt funds.

It appears in each issue of *Pensions & Investments*.

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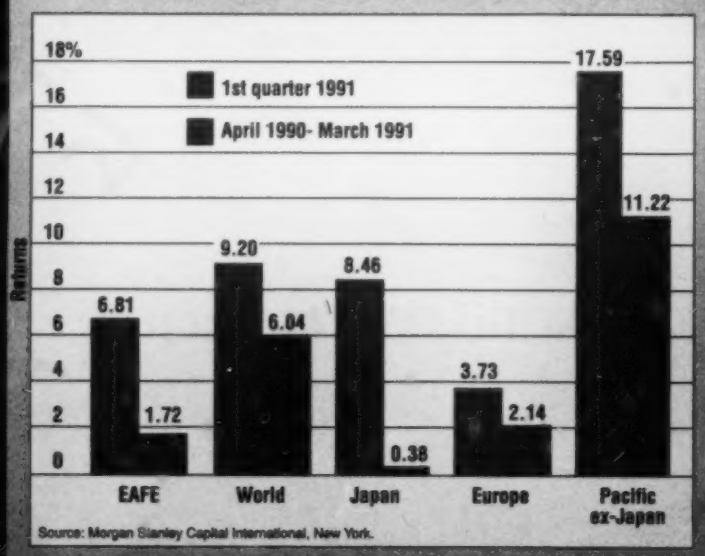
MSCI Worldwide indexes

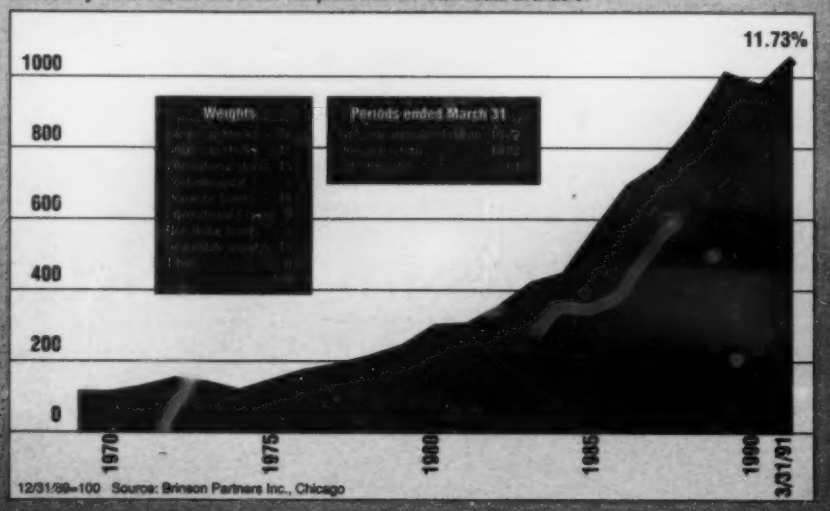
Indexes are in U.S. dollar terms without dividends re-invested



Source: Morgan Stanley Capital International, New York.

Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.



12/31/89=100 Source: Brinson Partners Inc., Chicago

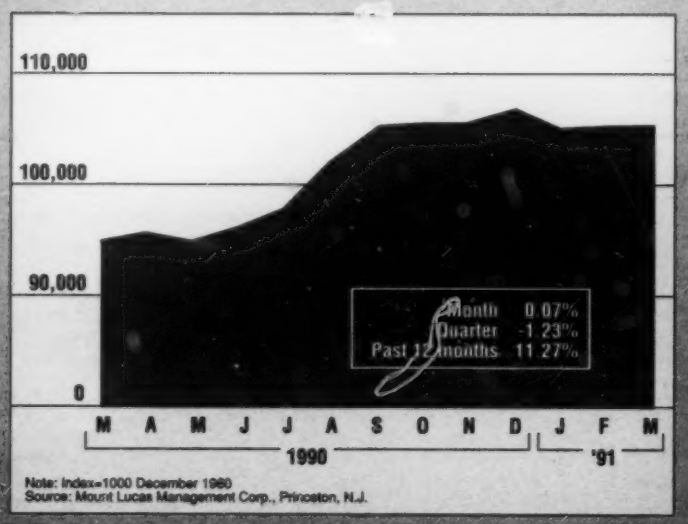
Russell indexes by economic sector

First quarter 1991 returns

	Russell 3000	Russell 2000	Russell 1000
Health care	22.45	42.01	21.19
Consumer staples	18.16	21.62	18.11
Other energy	3.26	7.13	2.90
Producer durables	13.52	26.26	12.41
Financial services	25.92	33.12	25.54
TOTAL	16.23	29.74	15.53

MLM Index

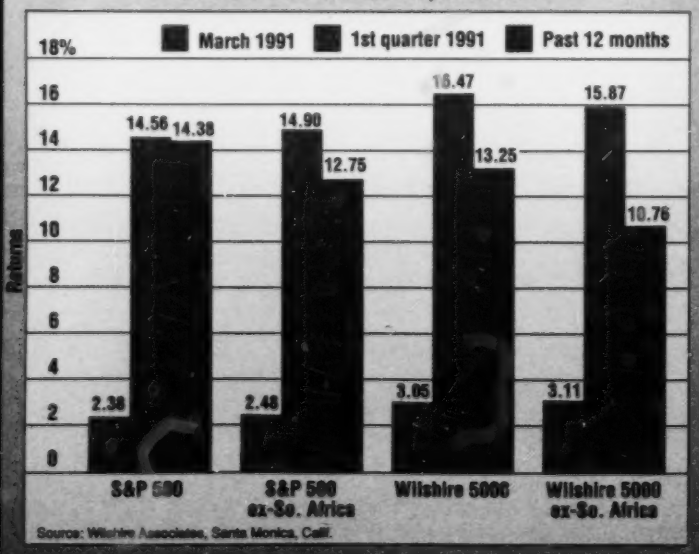
The MLM Index is an unleveraged index used as a benchmark to evaluate commodity futures investments. Periods ended March 31.



Note: Index=1000 December 1980
Source: Mount Lucas Management Corp., Princeton, N.J.

South Africa Free Index

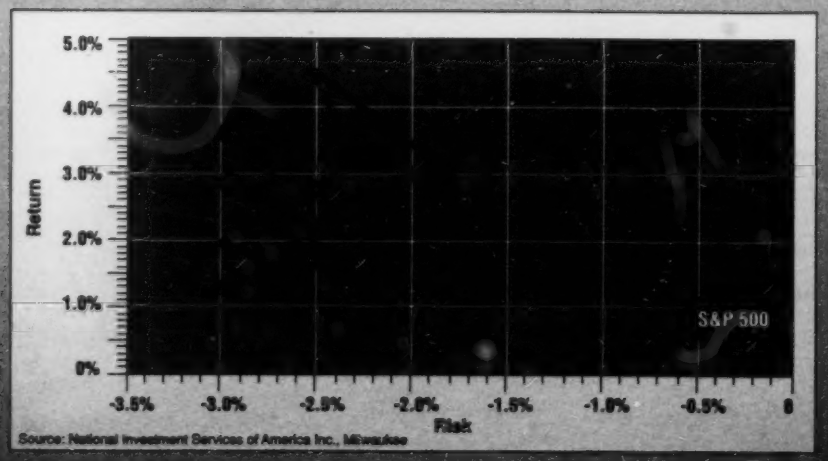
Ex-So. Africa excludes stock of companies with an equity stake in a South Africa business, no replacements.



Source: Wilshire Associates, Santa Monica, Calif.

Efficient Index

The Efficient Index is the stock portfolio chosen from the population of S&P 500 stocks with the lowest return volatility in the 24-month period preceding each quarter, subject to the following constraints: 1. A stock must have a 24-month trading history at the start of the quarter. 2. At the start of each quarter, the weight of a stock must be no less than zero and no more than three times its S&P 500 weight or 5%, whichever is less. 3. At the start of each quarter, no one industry weight can be greater than 20%. 4. Turnover is controlled to approximate 20% annually. Shown in rolling three-year periods.



Source: National Investment Services of America Inc., Milwaukee

GRAPHICS BY CYNTHIA WATSON

Rates take roller coaster ride during quarter

By Fred Williams

Rates for insurance and bank guaranteed products were volatile in the first quarter, bottoming out in February before recovering at the end of the quarter to near year-end 1990 levels.

"GIC/BIC volatility during the first quarter, which mirrored the bond market, resulted primarily from the Federal Reserve's decision to lower the Fed funds rate (half a percentage point) in late January and from the quick and decisive victory by coalition forces in the Persian Gulf, which lessened the fear of a prolonged recession and allowed rates to rise," said Peter Bowles, president and chief investment officer at Fiduciary Capital Management Inc., Woodbury, Conn., a GIC/BIC investment manager.

Rates on some maturities were lower, however. One-year GICs finished the quarter 70 basis points lower than they were at year end, said Bill Gardner, chief operation officer of the Laughlin Group, Portland, Ore., a GIC consulting firm. The rate dropped to 6.4% from 7.1% at the end of the year.

Spreads over comparable maturity Treasury instruments remained tight, around 70 to 90 basis points — about the same as at the end of 1990.

Mr. Gardner said concerns about credit quality of insurance carriers did not affect overall GIC rates during the quarter, although "we have seen a broader introduction of credit-enhanced (guaranteed) products and synthetics by carriers and by banks."

John Knight, president of Lamberson Knight Inc., Short Hills, N.J., said the GIC market was "fairly lackluster" during the first quarter, as were other fixed-income markets.

"People were on the sidelines waiting to see if the economy would rebound with any vigor. And a lot of investors, particularly in pooled funds, were just waiting for the economic news," said Mr. Knight.

He said the flight to higher-quality issuers remained in full force during the first quarter because of client concerns about credit quality in the insurance industry.

But, "we will start seeing people extending maturities (from shorter term GICs and money market instruments to the three- to five-year range) where better rates are to be found at some point. If they don't, they will be pulling down the overall yields in their portfolios," he said.

The following insurance company rate quotations on representative five-year, single-deposit, simple-interest, $1 million GICs were provided by Lamberson Knight and GIC Inc., Beaverton, Ore.:

- John Alden Life Insurance Co., Miami: March 28, 8.65%; Dec. 28, 1990, 8.55%.
- Allstate Life Insurance Cos., Northbrook, Ill.: 8.38%; 8.33%.
- Bankers Life Assurance Co., Des Moines, Iowa: 8.09%; 8.04%.
- Canada Life Assurance Co., Toronto: 8.44%; 8.28%.
- CNA Insurance Co., Chicago: 8.29%; 7.94%.
- Confederation Life Insurance Co., Atlanta: 8.55%; 8.35%.
- Connecticut Mutual Life Insurance Co., Hartford, Conn.: 8.45%; 8.38%.
- Crown Life Insurance Co., Toronto: 8.3%; 7.98%.
- Hartford Life Insurance Co., Hartford: 8.3%; 8.15%.
- John Hancock Mutual Life Insurance Co., Boston: 8.3%; 8.19%.
- Life Insurance Co. of Georgia, Atlanta: 8.25%; 8.05%.
- Life Insurance Co. of Virginia, Richmond: 8.44%; 8.16%.
- Lincoln National Life Insurance Co., Fort Wayne, Ind.: 8.13%; 8.21%.
- Massachusetts Mutual Life Insurance Co., Springfield: 7.96%; 7.88%.
- Mutual Life Insurance Co. of New York, New York: 8.53%; 8.35%.
- New York Life Insurance Co., New York: 8.4%; 8.25%.
- Northwestern National Life Insurance Co., Minneapolis: 8.42%; 8.27%.
- Ohio National Life Insurance Co., Cincinnati: 8.54%; 8.41%.
- Pacific Mutual Life Insurance Co., Newport Beach, Calif.: 7.92%; 7.81%.

William M. Mercer Asset Planning Inc., Deerfield, Ill., surveys insurance companies for rate quotations and provided the following summary of various bullet GICs for March 1991:

- Three-year, $1 million, compound: high, 8.3%; low, 6.92%; average, 7.79%.
- Three-year, $1 million, simple: high, 8.3%; low, 6.93%; average, 7.75%.
- Five-year, $1 million, compound: high, 8.8%; low, 7.55%; average, 8.45%.
- Five-year, $1 million, simple: high, 8.8%; low, 7.53%; average, 8.36%.
- Seven-year, $1 million, compound: high, 9.1%; low, 7.86%; average, 8.67%.
- Seven-year, $1 million, simple: high, 9.15%; low, 7.85%; average, 8.59%.
- Three-year, $5 million, compound: high, 8.3%; low, 7%; average, 7.86%.
- Three-year, $5 million, simple: high, 8.3%; low, 7.26%; average, 7.82%.
- Five-year, $5 million, compound: high, 8.8%; low, 7.84%; average, 8.52%.
- Five-year, $5 million, simple: high, 8.8%; low, 7.81%; average, 8.42%.
- Seven-year, $5 million, compound: high, 9.1%; low, 8.14%; average, 8.75%.
- Seven-year, $5 million, simple: high, 9.15%; low, 8.12%; average, 8.65%.

Mercer also surveys banks for rate quotations on their guaranteed instruments. Rate quotes for one- and three-year bullet BICs for March were:

- One-year, $1 million, compound: high, 7.2%; low, 6.47%; average, 6.76%.
- One-year, $1 million, simple: high, 7.55%; low, 6.47%; average, 6.83%.
- Three-year, $1 million, compound: high, 8.32%; low, 7.57%; average, 7.84%.
- Three-year, $1 million, simple: high, 8.63%; low, 7.56%; average, 7.98%.
- One-year, $5 million, compound: high, 7.22%; low, 6.57%; average, 6.84%.
- One-year, $5 million, simple: high, 7.6%; low, 6.57%; average, 6.88%.
- Three-year, $5 million, compound: high, 8.39%; low, 7.62%; average, 7.92%.
- Three-year, $5 million, simple: high, 8.63%; low, 7.59%; average, 8.02%.

Schmidt Management Co., a GIC market research firm in Tulsa, Okla., has developed a guaranteed product performance measurement index. The Schmidt GIC composite index approximates the return of a continuous, equally weighted investment in one- to 10-year original-maturity GICs. (The index shows returns, not rates.).

Total returns for the quarter and 12 months ended March 28 were 2.3% and 9.5%, respectively. The Standard & Poor's 500 Stock Index returned 14.5% and 14.4%; the Merrill Lynch Government/Corporate Bond Index, 2.5% and 12.3%; and 91-day Treasury bills, 1.5% and 7.3%. ■

P&I spotlights the fastest growing money managers in the July 8 issue.

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Some Plain Talk About Defined Contribution Plans

RESPONSIBILITY

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Employees Your first responsibility is to your company's employees because it's their financial security which is at stake. Since participants make their own investment decisions, you must ensure that all–the experienced and the novice alike–are provided with adequate education about the fundamentals of long-term investing. Employees should also be given convenient and timely access to information and the ability to change their investment line-up easily and quickly when necessary.

Your responsibility doesn't end when employees' initial selections have been made. Adequate information must also be provided as they transition through an employment career and on into retirement. The company you select should always be there for them.

Performance Of course, you want good performance. But in addition, your larger responsibility is to provide a broad, well-defined selection of investment options which provide dependable results over the long term. Your investment options–from conservative to aggressive–should be managed for specific objectives with each following a tightly prescribed and understandable investment strategy.

Partnership You strive for excellence in your own company. You should expect no less a commitment from a partner. Your administrative partner should have a deep line-up of well-trained people who will be ready to serve your needs, not only in the basics of timeliness and accuracy, but in responding to special requests. Your company is continually changing. Your partner should be flexible enough to grow and change with you.

Value You are willing to pay for quality, which does not mean excessive fees, but fair remuneration for value received. There should be no hidden assessments, no charges later on when you discover that your contract fees cover only minimum service levels. You should require full disclosure. And the same recognition of value should be present in the costs incurred by your participants for investment management and fund administration.

THE Vanguard GROUP OF INVESTMENT COMPANIES℠

Where they stand on the pay scale, continued from page 3

Firm	Top financial officer	Amount
United Technologies	John A. Rolls	$640,830
	(Salary, $395,830; bonus, $245,000)	
NYNEX	Robert J. Eckenrode	$622,000
	(Salary, $377,000; bonus, $245,000)	
Dun & Bradstreet	Edwin A. Bescherer Jr.	$619,431
Eaton	Stephen R. Hardis	$610,945
Travelers	Thomas O. Thorsen	$600,000
Schlumberger	A. Lindenauer	$581,000
Marriott	William J. Shaw	$575,000
Ashland Oil	Paul W. Chellgren	$562,392
	(Salary, $342,094; bonus, $220,298)	
Deere	Eugene L. Schotanus	$547,714
	(Salary, $310,197; bonus, $237,517)	
Warner-Lambert	Robert J. Dircks	$545,917
McDonnell Douglas	Herbert J. Lanese	$526,762
Humana	William C. Ballard Jr.	$519,244
J.C. Penney	Robert E. Northam	$517,130
	(Salary, $399,771; bonus, $117,359)	
Campbell Soup	Edwin L. Harper	$511,558
Coca-Cola Enterprises	L.R. Cowart	$510,128
Sun Microsystems	William J. Raduche	$509,520
	(Salary, $270,000; bonus, $239,520)	
Grumman	Robert G. Freese	$497,663
	(Salary, $301,400; bonus, $196,263)	
Quaker Oats	Paul E. Price	$488,109
Paramount Communications	Ronald L. Nelson	$475,000
Martin Marietta	Marcus C. Bennett	$466,698
Cooper Industries	Dewain K. Cross	$455,541
Armco	Wallace B. Askins	$443,148
Dow Chemical	Enrique C. Falla	$436,428
Phelps Dodge	Thomas M. St. Clair	$418,684
	(Salary, $244,384; $174,300)	
Maytag	Jerry A. Schiller	$417,993
BellSouth	Harvey R. Holding	$413,000
	(Salary, $265,000; bonus, $148,000)	
Whirlpool	James R. Samartini	$411,733
Genuine Parts	Edward M. Jones	$406,146

Firm	Top financial officer	Amount
	Raymond J. McCann	$401,255
CBI Industries	George L. Schueppert	$401,035
Tyson Foods	Gerald Johnston	$392,059
AMAX	Stephen C. Knup	$387,366
	(Salary, $277,366; bonus, $110,000)	
Centel	Eugene H. Irminger	$379,300
	(Salary, $221,917; bonus, $157,383)	
Pacific Enterprises	Lloyd A. Levitin	$377,255
	(Salary, $321,000; bonus, $56,255)	
Sherwin-Williams	Thomas R. Miklich	$375,604
Wendy's International	John K. Casey	$373,969
Union Camp	James M. Read	$368,878
	(Salary, $296,978; bonus, $71,900)	
	Owen F. Shaffer	$367,490
Alcan Aluminium	Allan A. Hodgson	$366,163
	(Salary, $269,818; bonus, $96,345)	
ARCO Chemical	Marvin O. Schlanger	$360,798
Kerr-McGee	John C. Linehan	$353,678
Polaroid	William J. O'Neill Jr	$351,690
	(Salary, $328,706; bonus, $22,984)	
Sundstrand	Paul Donovan	$350,202
Stanley Works	R. Alan Hunter	$343,131
R.R. Donnelley & Sons	F.R. Jarc	$336,445
	Robert A. Dowdell	$332,510
AMP	Benjamin Savidge	$332,178
Tandem Computers	David J. Rynne	$328,409
Hershey Foods	M.F. Pasquale	$324,744
	(Salary, $212,500; bonus, $112,244)	
New York Times	David L. Gorham	$311,613
	(Salary, $270,000; bonus, $41,613)	
Tambrands	Raymond F. Wright	$306,216
Mead	William A. Enouen	$290,572
	(Salary, $223,872; bonus, $66,700)	
PNC Financial	Walter E. Gregg Jr.	$277,574
Johnson Controls	James M. Wade	$273,121
Becton, Dickinson	Robert A. Reynolds	$269,067
Texas Instruments	William A. Aylesworth	$265,550
Hartmarx	Jerome Dorf	$262,000
Fieldcrest Cannon	K. William Fraser Jr	$245,000
Universal Foods	Geoffrey Hibner	$243,525
Panhandle Eastern	J.B. Hipple	$219,179
NIPSCO Industries	Stephen P. Adik	$215,122
	(Salary, $162,000; bonus, $53,122)	
Long Island Lighting	George J. Sideris	$171,667

Salaries

Continued from page 3

riod, while Mr. Woodward's salary increased 15.5% from last year's $1.040 million level. Mr. McCorkindale's salary eked up to $1.03 million from $1.02 million in 1989. USX's Mr. Thomas saw his salary rise 6.4% from $968,000 in 1989.

The compensation paid to more than 150 chief financial officers of the country's leading industrial and financial service companies is highlighted in the accompanying table. Data for the survey came from 1990 proxy statements.

Salaries include base pay and annual bonus but exclude other long-term compensation. Not all CFOs are among the top five executives whose compensation is reported in proxies.

Mr. Graziano landed his $1.5 million windfall through an employment agreement under which he rejoined the company in 1990 after a two-year stint as CFO of Sun Microsystems Inc.

"We think he's one of the finest CFOs in the country if not in the world. . . . Because Apple is going through a major transformation in the way we do business (moving to a market share as opposed to a gross margin strategy), clearly our ability to manage complex and changing finances is vital so we need a real top-notch CFO, and obviously we should pay people commensurate with their ability," said Christopher Escher, a spokesman for Apple. Mr. Graziano had first worked for Apple in the early 1980s.

While the salaries of chief executive officers continue to climb beyond their already stratospheric heights even as corporate profits slip, CFO salaries have fallen from their more down-to-earth levels.

Rhoda Edelman, managing director, Pearl Meyer & Partners Inc., New York, an executive compensation consulting firm, said the total cash average of salary and bonuses of CFOs of Fortune 100 companies was $515,000 in 1990, down 8% from an average of $560,000 in 1989. Most of the decline stemmed from reduced bonuses. Total compensation, including long-term compensation, has dropped by about 3.6% to an average of $1.15 million vs. $1.19 million in 1989.

But stock option grants and awards increased by 15% in 1990, while restricted stock and performance awards declined. Total long-term compensation went up about 2%, according to Pearl Meyer.

A larger survey of CFOs of 350 companies by Towers Perrin, New York, found different results.

The median compensation, including salary and bonuses, was $413,000 in 1990, representing a 4.4% increase over 1989.

The median total direct compensation, including long-term incentive award payments such as stock options was $510,800, a 16.3% increase over 1989's $439,300. Stock option gains rose to a median of $210,100, a 10.3% increase from $190,400 in 1989, according to Towers Perrin.

Far and away the highest salaried chief executive for the second year in a row was Paul Fireman of Reebok International Ltd., with $14.822 million. Michael D. Eisner of Walt Disney Co. registered $11.233 million. Both men topped last year's *P&I* survey. In terms of long-term compensation, Stephen M. Wolf of UAL Corp. led the pack with a whopping $17.151 million, dwarfing his $1.15 million salary. ■